

Fiscal Estimate Narratives

DOR 2/20/2006

LRB Number	05-4271/1	Introduction Number	AB-1001	Estimate Type	Original
Description Computing expense deductions and amortization and depreciation on property for income and franchise tax purposes					

Assumptions Used in Arriving at Fiscal Estimate

Wisconsin has not adopted federal bonus depreciation rules and increases in expensing of investments under section 179 of the Internal Revenue Code (IRC), as provided in the Job Creation and Worker Assistance Act of 2002, the Jobs and Growth Tax Relief Reconciliation Act of 2003 and the American Jobs Creation Act of 2004.

Under the IRC, taxpayers may claim an additional 30% first-year bonus depreciation deduction for qualifying property acquired after September 10, 2001 and before May 6, 2003, and placed in service before January 1, 2005, and may claim an additional 50% bonus depreciation deduction for property placed in service after May 5, 2003 and before January 1, 2005. Also, the amount of IRC section 179 expensing deduction is increased from \$25,000 to \$100,000 for taxable years beginning before 2008. For taxable years beginning in 2008, the maximum section 179 deduction is \$25,000. Under IRC section 179, the cost of certain business assets purchased during the year, subject to specific limitations, may be deducted rather than depreciated.

The bill would allow increased IRC section 179 expensing for taxable years beginning in 2006 and 2007 and would also allow any future federal law changes to the bonus depreciation and expensing provisions to be automatically adopted in Wisconsin.

Based on information from the Individual and Corporate Income Tax Samples compiled by the Department and from the U.S. Joint Committee on Taxation, allowing increased section 179 expensing for all eligible taxpayers for 2006 and 2007 would result in a one-time revenue reduction of approximately \$22.5 million occurring in fiscal year 2007 and 2008.

The fiscal effect of allowing bonus depreciation, should those sections of federal law be amended at some point in the future, is unknown. As an example of possible revenue loss, if bonus depreciation were available for all taxpayers in 2006, it would reduce state revenues by \$125 million for 50% bonus depreciation and by \$85 million for 30% bonus depreciation.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): The bill would have one time costs of \$22.5 million in occurring in FY 07 and FY 08.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$	
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT			
		State	Local
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$	\$
Agency/Prepared By		Authorized Signature	Date
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